US Embassy Jakarta
ECONOMIC SECTION

INDONESIA:
ENERGY HIGHLIGHTS JULY 2005

Summary

- Indonesia's oil and gas downstream regulatory body BPH MIGAS announced a tender of the Cirebon-Semarang-Gresik gas pipelines, the first gas infrastructure project following the January Infrastructure Summit.
- EMP Kangean, a subsidiary of the publicly listed PT Energi Mega Persada Tbk, concluded three gas sales agreements with PGN, PLN and Petrokimia Gresik worth USD 2.5 billion.
- Indonesia's Medco and U.S. Anadarko Petroleum Corporation also signed a joint-venture exploration agreement worth USD 80 million.
- Indonesian President Yudhoyono called for energy conservation and issued Presidential Instruction No.10/2005. The Energy and Mineral Resources (ESDM) Ministry responded to the instruction and issued Ministerial Decree No.31/2005 setting guidelines for energy savings.
- Kerosene scarcity was reported in a number of cities as Pertamina cut supplies.
- Starting in July, Pertamina raised the price of industrial diesel oil for miners, oil and gas companies and export-oriented industries.
- Four countries forfeited ownership shares in Asean Aceh Fertilizer, which has been idle since October 2004 due to gas supply shortages.
- The Directorate of Coal and Mineral Enterprises reported eight coal companies owe royalties payment of over USD 120 million.
- The Indonesian Tin Industry Association member tin smelters decided to cut production due to low international tin prices.

Note: The exchange rate as of July 29 of Rp 9,814/USD is used throughout this report.

Pipeline Tender Opened

On July 5, Indonesia's oil and gas downstream regulatory body BPH Migas announced a rights tender for two onshore gas transmission lines. The two pipelines, Cirebon - Semarang and Gresik- Semarang are about 230 km (143 miles) and 250 km (155 miles) long respectively, with a gas flow of 350 to 500 million cubic feet per day (MMCFD). BPH Migas said 21 companies registered for the tender, but two failed to qualify. Among the interested firms are the National Gas Company PGN, the National Oil Company, Pertamina, the Trans Java Gas Pipeline (TJGP), Rabana and Bakrie. This "rights tender" is the first of its kind in Indonesia and is part of the infrastructure projects offered during the Infrastructure Summit in January 2005. Winners will have special rights to construct pipelines and distribute gas for a set time period. The total project cost is estimated at USD 500 million and is due for completion in 2010. The transmission line is essential to linking East Java's gas supply, as well as connecting the proposed East Kalimantan and Central Java pipelines.

Contract Signing

EMP Kangean, a subsidiary of PT Energi Mega Persada Tbk, a publicly listed Indonesian oil and gas company, signed three gas sales agreements (GSA) and a heads of agreement (HoA) on July 11. The three GSAs are between PT PLN (state-owned electricity company), PGN and PT Petro Kimia Gresik (state-owned petrochemical company) for the sale of 760 TBTU (Trillion British Thermal Units) gas, with a reported value of USD 2.5 billion. The gas will come from the Rancak Ngimbang, Terang Sirasun and Batur fields based on the Kangean Production Sharing Contract (PSC) in East Java. EMP purchased an interest in the PSC from British Petroleum (BP) in 2004. The contracts, although mostly short-term, will help PGN and PLN secure power generation, as well as gas supplies for their East Java customers.

Contract With	Agreement Type	Contract Years	Amount (TBTU)
PLN	GSA	3	12.70
PGN	GSA	0.5	6.39
Petro Kimia Gresik	GSA	10	243.27
PLN	HoA	n.a	342.50

On July 26, Indonesia's Medco Energi International (Medco) and Texas-based oil and gas exploration company Anadarko Petroleum Corporation (Anadarko) signed an agreement for joint venture exploration. Anadarko agreed to fund a three-year work program of exploration activities at a cost of USD 80 million. Under the agreement, Anadarko will have an opportunity to earn up to a 40 percent interest in each Production

Sharing Contract (PSC) when a successful well is drilled and a development plan is approved. The agreement effectively grants Anadarko access to Medco's 13 PSC areas throughout Indonesia. This significantly increases Anadarko's Indonesian asset base. Anadarko only recently began its activities in Indonesia when it won the North East Madura III PSC in December 2004.

President Calls for Energy Conservation

On July 10, President Yudhoyono issued Presidential Instruction (Inpres) No. 10/2005 on Energy Conservation as a short-term remedy. The Inpres, which was addressed to ministers, governors, and all government agencies, requested them to begin implementation of energy conservation in their areas of responsibility. The President admitted that energy conservation would produce minor inconveniences, but should not disrupt economic activity or negatively affect public safety.

Several institutions responded by issuing decrees related to the Inpres. The Minister of Information and Telecommunication issued Decree No.11/P/M.Kominfo/7/2005, which forbids television and radio broadcasts from 1 am to 6 am. After a series of protests from the media community, however, the GOI revised the regulation to allow 24-hour radio and TV broadcasts and those with prior broadcasting contracts to resume. Jakarta Governor Sutiyoso also issued Instruction No.77/2005, ordering Jakarta's residents to start saving energy. Jakarta's public lighting authorities' (PJU) decision to turn off streetlights on main roads after 10 pm has triggered concerns over public safety.

On July 22, the Minister of Energy and Mineral Resources Purnomo Yusgiantoro issued Decree No. 31/2005 "Implementation Guidelines for Energy Savings." The decree outlines energy saving measures for commercial buildings, government institutions, households, industry and transportation. Under the decree, private vehicles with a machine capacity of more than 2000 CC, particularly in Sumatra, Java and Bali, are advised to use the higher quality and non-subsidized Pertamax fuel instead of Premium fuel. Another measure sets the air-conditioned room temperature at 25 degrees Celsius (77 degrees Farenheit) for all commercial and government buildings. In addition, all private homes are asked to reduce electricity consumption by 50 watts during the peak period from 5-10 p.m. The Minister also issued an "Energy Consumption Card," which instructs government agencies to submit progress reports on energy saving activities every six months. So far, PLN has claimed savings of around 600 to 900 megawatts (MW) of electricity during the peak periods since its implementation of the Inpres.

Kerosene Shortages

Kerosene shortages occurred in July in several areas. Pertamina's marketing unit for Jakarta and surrounding areas began rotating supply cuts to its agents. Jakarta experienced minor shortages, but Sulawesi and Kalimantan faced more serious problems. In these areas, kerosene prices reportedly reached Rp 2,000 per liter (USD 0.77 per per gallon) or more than double the recommended retail price of Rp 950 per liter (USD 0.37 per gallon). Supervision and irregularities in distribution are two important issues relating to kerosene. There are reported incidents of buyers blending cheaper subsidized kerosene with diesel oil for subsequent sale to various industries. Industries, in turn, then often use the adulterated diesel (diesel and kerosene mixture) due to the high price disparity between kerosene and industrial diesel, which is priced between Rp 2,200 per liter (USD 0.85 per gallon) and Rp 4,700 per liter (USD 1.82 per gallon). As a result, not all subsidized kerosene reaches the intended target of small household consumers. This highlights one of the major flaws in the current subsidy and distribution system.

Selected Fuel Price Increases

Effective July 1, Pertamina raised the price of Industrial Diesel Oil (IDO) for mining, oil and gas, and export-oriented industries. The new price is based on Mid Oil Platts Singaore (MOPS) plus 15 percent, which effectively raised the price from Rp 2,200 to Rp 4,740 per liter or 113 percent. Following the increase, the mining industry is preparing for a loss of profits because they can adjust only not all sales contracts can be adjusted to accommodate the higher price. The Chairman of the Indonesian Coal Mining Association (ICMA) welcomed the change, given the favorable international coal prices. He said the new price would only result in an increased production cost of approximately USD 1.5 to USD 3 per ton of coal or 3 to 4 percent of total production cost.

Shareholders Withdraw from Aceh Fertilizer

During a general shareholders meeting of PT Asean Aceh Fertilizer (AAF), four countries decided to forfeit their shares in the plant. Malaysia, Thailand, and Philippine each held 13 percent, while Singapore held 1 percent. According to the company's deed of incorporation, Indonesia, as the majority shareholder (60 percent) has "first privilege" whether to acquire the shares or sell them to a third party. The North Aceh plant was first inaugurated in 1979 as part of the Bangkok Declaration and has an annual capacity of 570 thousand metric tons (MT). AAF, which requires approximately 180 million cubic feet per day (MMCFD) gas to operate, struggled with gas supplies as a result of declining gas production from Exxon's Arun field. In October 2004, the GOI decided to close down the plant and lay off its 800 workers. Currently, plant workers await a decision from the State Ministry of Enterprises (SOE) whether the plant will be liquidated or will restart when gas supplies resume in 2006.

Delinquent Royalty Payments

The Directorate General of Coal and Minerals (DGCM) reported that as of July 1 overdue royalty payments by eight coal companies have reached USD 118.58 million and Rp 45.16 billion (USD 4.6 million). These are accumulated royalty payments from 2001 to 2004, plus fines. Each Coal Contract of Work (CcoW) holders are required to pay royalties of 13.5 percent of net sales to the government. The biggest debtor is Bumi Resources, whose subsidiaries Kaltim Prima Coal (KPC) and Arutmin Indonesia, each owe USD 48 million and USD 48.8 million respectively. Other companies that have withheld royalty payments are Bahari Cakrawala Sebuku (USD 13.9 million), Multi Harapan Utama/MHU (USD 3 million), Tanito Harum (USD 2.41 million), Allied Indo Coal (USD 1.24 million), Antang Gunung Meratus (USD 1.02 million) and Baramata (USD 0.4 million). Earlier, the DCGM had threatened to terminate the contract of MHU, which led to the cancellation of MHU's acquisition plan by the state-owned coal company. The DCGM asked the directors of the eight companies to settle half of the royalty payments in July and the remainder by the end of 2005.

Tin Smelters Cut Production

Sixteen small and medium scale tin smelters under the Indonesian Tin Industry Association (AITI) decided to cut production in half starting July 15 in response to a drop in global tin prices. In the past year, tin price per ton has dropped 25 percent, from an average price of USD 8,500 in 2004 to USD 6,800 in July this year. The AITI smelters hope by reducing supply to push prices up again. Indonesia is the world's second largest tin producer after China, supplying around one third of the world's tin. AITI smelters, which do not include Indonesia's two leading tin producers, PT Timah and PT Koba Tin, are mostly located on Bangka Island, in Bangka Belitung province. Smelters have a monthly capacity of around 4,000 to 6,000 tons. However, the market's response following the suspension has been slow and the price of tin was USD 7,100 as of end of July 2005.